

**Submission to the ACCC in
Relation to the ACCC Consultation
Paper on the Australian Rail Track
Corporation's Interstate Access
Undertaking Capital Expenditure
Variation**

February 2012

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1 INTRODUCTION AND BACKGROUND

Asciano welcomes the opportunity to respond to the Australian Competition and Consumer Commission (ACCC) Consultation Paper in relation to Australian Rail Track Corporation's (ARTC) Interstate Rail Access Undertaking variation. Asciano, through its Pacific National subsidiary, is the largest operator on the ARTC interstate network.

Section 2.4 c) of the ARTC's Interstate Rail Access Undertaking requires ARTC to develop and submit capital expenditure for the period July 2012 to June 2018. ARTC has now submitted forecast capital expenditure for 2012-13 to 2017-18 under section 2.4 in the form of a re-submitted Schedule H.

In general terms Asciano believes that this approach is appropriate as the alternative approach of forecasting ten years of capital expenditure in 2006-7 would have been likely to result in misaligned forecasts in later years as conditions changed and actual capital expenditure diverged from the forecast.

Asciano support the ARTC application to vary the 2008 Interstate Access Undertaking but have some concerns with current ARTC capital expenditure processes which are outlined in this submission.

2 ARTC PROPOSED CAPITAL EXPENDITURE

The ARTC in its proposed variation is proposing capital expenditure of \$626 million over six years (or approximately \$104 million per annum).

This expenditure has been focussed in the following broad categories:

- the implementation of the advanced train management system (ATMS);
- the improvement of the capacity on the east – west network; and
- the strengthening of track on the east west network to allow increased speed and axle loads.

3 ASCIANO CONCERNS WITH ARTC CAPITAL EXPENDITURE PROCESSES

In general terms Asciano supports ongoing capital expenditure on the ARTC interstate network, as improved network infrastructure allows for both improved system capacity and improved operator efficiency. However, in this instance this

support is qualified as Asciano believes that there has been insufficient consultation by ARTC and that there is insufficient detail for Asciano to be confident that the proposed capital expenditure will assist ARTC improve the interstate network's capacity and efficiency.

Asciano's general concerns with the ARTC capital expenditure and consultation process are outlined below.

Consultation with Industry

ARTC¹ claim that they undertake consultation, stating that they:

... maintain a continuous dialogue with rail operators in the development of its overall investment strategy. Specific discussions in respect of ARTC's investment strategy are held with rail operators on an ad hoc basis as appropriate and drafts of ARTC's investment strategies are regularly circulated to relevant industry stakeholders for consultation purposes. It is ARTC's general practice to release its investment strategies to industry as consultation documents and feedback on such strategies is encouraged. Whilst strategy documents set out the context for investment decision making, individual projects undergo further rounds of review and engagement with relevant stakeholders before any final approval is granted.

ARTC undertakes stakeholder consultation in relation to investment strategies in accordance with section 6.5 of the Access Undertaking.

The ACCC² raises concerns regarding the lack of detail provided by ARTC in relation to the consultation undertaken in developing the proposed capital expenditure for 2012-13 to 2017-18, and seeks industry views on the effectiveness of ARTC consultation. Furthermore the ACCC³ note that effective consultation on the proposed capital expenditure is likely to be facilitated by the provision of information on how the capital expenditure forecasts were developed.

¹ ARTC, Application by ARTC to vary the ARTC Interstate Access Undertaking, 2012, pages 2 – 3

² ACCC, Consultation Paper in Relation to the ARTC Interstate rail network Access Undertaking Variation 2012, page 10

³ ACCC, Consultation Paper in Relation to the ARTC Interstate rail network Access Undertaking Variation 2012, page 11

Asciano does not agree with the ARTC characterisation of the consultation which ARTC undertakes in relation to its interstate network.

Asciano believes that the capital expenditure consultation undertaken by ARTC in relation to its interstate network has, in the past, not been effective. Asciano believes that the consultation is primarily undertaken to meet requirements to consult with industry. Typically, consultation has occurred only after an extended internal ARTC review involving internal ARTC approvals. As such, it is Asciano's experience that feedback via the ARTC-industry consultation processes is marginalised, and that in many instances consultation is undertaken too late to have any impact on the nature of the capital works, as these works have already been internally approved by ARTC. Asciano would support moves to increase the level of meaningful consultation and has welcomed steps by ARTC late in 2011 to improve this process.

ARTC claims confidentiality over the project evaluation procedure to be used⁴. Asciano does not believe that such a key part of the investment process should be confidential (with the exception of data relating to a user specific project or sensitive financial data such as rates of return). Asciano requests that the ACCC require ARTC to publish the evaluation process as part of its decision on this ARTC application. Improving the transparency of the ARTC capital expenditure evaluation procedure will facilitate improved industry input into the capital expenditure process.

Overall, Asciano believes that effective consultation on the proposed ARTC capital expenditure would be facilitated by the provision of more detailed information on both the capital projects that constitute the proposed capital expenditure and the manner in which the capital expenditure forecasts for these projects were developed and evaluated. Increased provision of capital project information from ARTC combined with involvement from rail operators will allow an improved determination of the expected benefit of the capital expenditure to both ARTC and rail operators, and consequently will result in more efficient and effective capital investment. Stakeholder awareness of, and confidence in, ARTC capital expenditure development and evaluation processes is central to both the proper governance of the investment process and improved capital expenditure outcomes.

⁴ Details of the ARTC project evaluation procedure are in Confidential Annexure 2

Levels of Proposed Capital Expenditure

Asciano notes that, notwithstanding the substantial escalation in the costs of investing in infrastructure since 2008, generally the ‘Corridor Infrastructure Investment’ forecasts contained in the current ARTC proposal have been significantly reduced. For example, on the Adelaide-Parkeston corridor the previous forecast of \$10.56 million in 2011/2 is reduced to a trend level of \$6.4 million in the new forecast.

Asciano requests that the ACCC require ARTC to provide some explanation of the factors enabling such a reduction in capital investment in instances where the level of investment has been reduced.

Details of Proposed Capital Expenditure

Asciano believes that the information provided by the ARTC in relation to the capital expenditure forecasts is not sufficiently detailed to allow detailed comment on the proposed capital expenditure projects.

For example in the proposed Attachment H the Melbourne – Parkeston corridor capital expenditure program is separated into only three categories, namely:

- improvement project works;
- ATMS roll out; and
- corridor infrastructure investment.

The proposed capital expenditure in other corridors has similarly high levels of aggregation. These broad categorisations and the high level of aggregation are not conducive to allowing any specific comment on the proposed capital projects and capital expenditure levels.

Asciano acknowledges that the ARTC has provided some additional information in its supporting documentation⁵ but much of this information remains general and does not have specific capital costs attached to specific projects at any level of detail, and where such costings are provided there is no indication that these costings are efficient or reflect market demand.

⁵ See for example “ARTC Variation to Schedule H to Incorporate Capital Expenditure 1 June 2012 – 30 June 2018 Supporting Submission January 2012” pages 29 -32

More generally ARTC do not appear to provide any information on the assumptions and traffic forecasts which underpin the proposed capital expenditure.

Asciano's concern is that the limited detail provided prevents rail operators and other users from identifying both desirable projects that should be expanded or fast tracked and less desirable projects that are not sought by operators or other users and which should be scaled back or deferred in order to allow capital to be invested in projects demanded by the market. The provision of additional detail on the capital projects which make up the proposed capital expenditure and a disaggregation of capital expenditure categories would assist operators and other users prioritise the proposed capital projects and provide this information to ARTC.

It should be noted that some of the ARTC projects which have been identified in the ARTC Application, such as the Southern Sydney Freight Line, are supported by Asciano. The purpose of Asciano in seeking additional information is not to reject capital projects but to prioritise capital projects.

Need for Improved Accountability for Capital Expenditure

While the ARTC's Supporting Submission mentions various capital investment options under consideration, the Supporting Submission is silent on the high level outcomes expected to be achieved by the capital expenditure. Asciano believes that these expected outcomes should be explicitly identified in this process. For example expected outcomes could include the following measurable and reportable outcomes:

- growth in corridor traffics;
- variation to existing transit times;
- extent of deployment of ATMS; and
- changes to corridor capability such as train length, speed, axle loading and clearances.

If ARTC identified the high level deliverable outcomes for each corridor this would allow informed comment by operators and other users on these assumed outcomes and whether they are important to operators and other users. The identification of these deliverable outcomes should also be linked to items of capital expenditure such that the capital expenditure is more clearly linked to outcomes. Such specific linkages

will increase the accountability of ARTC to deliver these outcomes for the investment identified.

Nature of Capital Expenditure Projects

Detailed comment on the ARTC proposed capital expenditure projects is problematic given the lack of information, however a review of ARTC's proposed capital expenditure projects⁶ indicates that, to some extent, ARTC is too focussed on projects which nominally improve the rail service offering by providing small improvements in transit time) and not focussed enough on promoting the ability of the network to compete with road traffic and reduce operators costs.

Asciano believes that the ARTC capital expenditure projects should prioritise improving express capacity on the east-west section of the ARTC network, and increase the capability of the network with regard to double stacking and longer trains.

Asciano welcomes ARTC discussion of these issues but ARTC appears to defer some of these priorities to the back-end of the forecast period stating⁷:

Later in the six year forward forecast period it may be desirable to move to longer trains on the Melbourne – Adelaide and / or double-stacking on the Sydney – Parkes and Melbourne – Adelaide sections.

Asciano believes that the ARTC should focus on capital projects that facilitate increased east-west express capacity, double stacking and longer trains rather than more incremental projects.

Prudent Investment and the Market

Asciano recognises that section 4.4 of the Access undertaking requires ARTC to invest prudently in new capital expenditure. The requirements for prudent capital expenditure (as defined in the Access Undertaking⁸) include, amongst other items, having regard to:

⁶ These comments are based on the projects outlined in ARTC Variation to Schedule H to Incorporate Capital Expenditure 1 June 2012 – 30 June 2018 Supporting Submission January 2012" pages 29 -32

⁷ ARTC Variation to Schedule H to Incorporate Capital Expenditure 1 June 2012 – 30 June 2018 Supporting Submission January 2012 page 31

⁸ The 2008 Interstate Access Undertaking includes a definition of "prudent" which includes seven items to be considered.

- meeting market demand for network capacity and performance
- efficient means of meeting market demand; and
- industry support.

Asciano believes that in considering prudent investment ARTC do not seem to sufficiently consider issues relating to market demand and industry needs.

Asciano believes that ARTC interpret the prudent investment requirement too narrowly as ARTC capital investments are focussed on incremental changes to existing infrastructure, rather than being focussed on taking into account the demands of industry and the market. By focussing on market needs ARTC can take steps towards a longer term enhanced capability and capacity required by the market.

Asciano believes that the ARTC should provide information on the market demand and operators and users needs which it took into account in developing the proposed capital expenditure forecasts.

4 CONCLUSION

Overall, Asciano supports the ARTC proposed variation but has some significant concerns with current processes and practices which the ARTC used in developing the proposed capital expenditure.

Asciano supports ongoing capital expenditure on the ARTC interstate network, as improved network infrastructure allows for both improved system capacity and improved operator efficiency. In particular Asciano is concerned with improving express capacity on the east-west section of the ARTC network.

However in regard to the current process, Asciano is concerned that:

- there has been insufficient consultation to allow any meaningful industry input to the proposed capital expenditure. In particular Asciano believes that the project evaluation procedure used by ARTC should be made available in order to facilitate improved industry input;
- there has been insufficient provision of information regarding:
 - the levels of capital expenditure and why they appear to be reduced;

- the capital projects which make up the proposed capital expenditure;
- the assumptions which underpin the proposed capital expenditure;
- the outcomes ARTC expects from the capital expenditure. Asciano believes that measurable expected outcomes must be provided if ARTC is to be held accountable for the effectiveness of its capital investment;
- there is a need for the ARTC to focus on market demands regarding infrastructure investment and prioritise these demands and projects.

Asciano believes that the ACCC should seek to address these issues in the current regulatory process via the facilitation of meaningful consultation and the further provision of information.